

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE)
RATES OF KENTUCKY-) CASE NO. 2007-00143
AMERICAN WATER COMPANY)

PRE-FILED TESTIMONY OF JACK E. BURCH

Comes now the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc. (CAC), and tenders for filing the Testimony of Jack E. Burch:

1. Please indicate your name, address and describe your current position and professional background.

My name is Jack E. Burch and I have served as Executive Director of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties since 1979. The Council's operates 32 neighborhood and community centers and child development centers in five counties and its Administrative Support Services are located at 710 W. High Street in Lexington, Kentucky.

I graduated from Vanderbilt University with a Masters degree in Economics and hold a Bachelors degree from Rhodes College. I am the founder and President of the WinterCare Energy Fund, Executive Director of Community Action Council, and presently serve on the Columbia Gas Energy Assistance Program Collaborative and Kentucky Utilities (E.On) Home Energy Assistance and Demand-Side Management Advisory Group.

2. Please describe the purpose of your testimony.

The purpose of my testimony is to state the position of CAC with respect to the proposed Kentucky American Water Company rate increase and to provide information in support of my position. In summary, we do not believe that a rate increase, as currently proposed by Kentucky American Water Company, is reasonable or appropriate as applied to the utility's low-income customers. My testimony will provide a perspective that represents issues that should be given full consideration in rendering a decision on this case. I am an advocate on behalf of low-income customers. CAC is a low-income advocacy and services organization.

3. Please describe the organization of Community Action Council and give a brief description of its activities.

CAC was established in 1965 as a not-for-profit community action agency of the Commonwealth of Kentucky. The Council is governed by a Board of Directors representing low-income, public, and private sectors of the community. Its mission is to combat poverty.

There are approximately 260 employees operating and administering the Council's primary programs and services including:

- self-sufficiency
- child development
- homeless programs
- volunteer programs
- youth development
- transportation services
- clothing banks
- housing
- energy assistance and conservation programs
- emergency assistance
- community outreach and referrals.

Although CAC's core service territory includes Lexington-Fayette, Bourbon, Harrison and Nicholas counties, the Council also provides services in other counties and statewide. For example, the Council administers the WinterCare Energy Fund providing services across most of the state; child development services extend into Scott County; the Retired and Senior Volunteer Program extends into Jessamine County. The Columbia Gas Energy Assistance Program and Kentucky Utilities' Home Energy Assistance Program each provide services throughout the service territory of their respective utilities. The Council also operates the Kentucky American Water Help to Others (H2O) Program throughout the utility's service area.

CAC is uniquely positioned to speak on behalf of low-income populations with utility-related problems as staff has extensive contact with and knowledge of this population. Additionally, Council staff is able to help participants access other Council assistance programs as well as other community resources to address the multiple obstacles and barriers that most low-income households face. This comprehensive approach provides greater stability and self-sufficiency to these households, supporting a family's ability to afford necessities such as utility service.

4. Please describe in detail the Council's programs and services, especially those which partner with public utilities.

CACI creates opportunities for individuals and families to become self-sufficient members of the community. Created in 1965, the Council is the designated community action agency for

Lexington-Fayette, Bourbon, Harrison, and Nicholas counties in Central Kentucky and serves the low-income population through advocacy, service delivery and community involvement. The mission of the Council is to combat poverty.

The Council operates **Head Start, Early Head Start** and **Migrant Head Start** child development programs that have been recognized nationally. The organization also operates several housing programs, including two **Continuum of Care** projects funded by the Department for Housing and Urban Development. These projects help homeless families reconstruct their lives by working with the families to determine and address the causes of homelessness. Another housing program offered is **Tenant Based Rental Assistance (TBRA)**, which provides assistance to Section 8-eligible households throughout the Council's service area.

Other programs include senior volunteerism projects **Retired and Senior Volunteer Program (RSVP)** and the **Foster Grandparents Program (FGP)**. To support economic independence, the Council offers a **Chase Financial Fitness** consumer education program that provides training on financial management and offers families the chance to save for a home, small business or higher education. Also, the Council works each year with community partners to provide tax preparation and education on the **Earned Income Tax Credit (EITC)** and how to apply.

The Council also operates a number of utility assistance programs in partnership with local utilities, public and private funding sources, and other community action agencies across the state. These programs are described below.

In 1983, Community Action Council initiated, with Kentucky Utilities, the establishment of the **WinterCare Energy Fund**. The Council has provided administrative services, financial management and marketing support for the Fund since that time. The Council has also managed the Federal **LIHEAP** program (Low-Income Home Energy Assistance Program) serving low-income customers in Fayette, Bourbon, Harrison and Nicholas Counties since its inception.

Since 1978, the Council has operated a **Weatherization Assistance Program** designed to help low-income individuals and families conserve energy. Weatherization services include caulking, weather-stripping, replacement of thresholds and door sweeps, re-glazing windows and replacing broken glass, outside wall repair, minor roof repair, attic insulating, repairing and replacing skirting around the foundation, under-floor insulation including wrapping pipes and insulating heat ducts, venting the attic and crawl spaces, and repairing or replacing heating equipment and venting system.

The Council currently administers a utility funded energy subsidy program serving 850 low-income households in partnership with **Columbia Gas of Kentucky** and the network of community action agencies serving the Columbia Gas service territory. Also, in cooperation with Columbia Gas, the Council formerly operated a "Buyers Club" for the purchase of natural gas, aggregating low-income and other customers for collective buying power within the Columbia Gas Choice Program.

The Council also implemented and administers the **Kentucky Utilities Home Energy Assistance (HEA) Program**, which serves 1,300 KU customers whose primary heat source is KU electric by providing regular monthly subsidies throughout the winter and summer peak usage months.

The Council's **Summer Cooling** program served 73 seriously ill and disabled customers in 2006 with the provision and installation of air conditioners.

Beginning in 2003 through 2005, the Council operated a demand-side management program through the Department of Health and Human Services, Office for Community Services, called REACH (Residential Energy Assistance Challenge). Also in 2003, the Council contracted with Honeywell to assist in carrying out the Kentucky Utilities "We Care" demand side management program in its four core counties. That partnership continued through 2004, though the Council continues to provide energy conservation services, such as furnace replacement, through its Weatherization programming.

5. Are there initiatives through which Community Action Council partners with Kentucky American Water Company? Please discuss.

The Council administers Help to Others (H2O) through contributions from Kentucky American Water shareholder funds and customer donations. The funds are available throughout the Kentucky American Water service territory for customers with household incomes up to 150 percent of federal poverty guidelines. Assistance is provided for water service, activation fees and reactivation fees. Participants may receive up to \$100 in benefits per fiscal year if they are in danger of having their water disconnected. Intake staff provides information to participants about saving water and detecting leaks.

The Council has operated Help to Others since 2006, when its name was changed from Water for Life. The Water for Life program began in 2000.

6. Please describe the low-income population in the Kentucky American Water Company service territory.

Based on 2000 Census data, the following chart provides poverty status by county for KAWC service counties except for Owen, Grant, and Gallatin (those added in the acquisition of Tri-Village Water District in 2001) and for Jessamine. The company's proposal would decrease water rates in Owen, Grant and Gallatin Counties.

The chart shows an estimated number of KAWC low-income customers based on the poverty rate by county. KAWC customer counts by county were provided by the company in 2000.

KAWC Service County	Poverty Rate	KAWC Customers by County	Estimate of KAWC Customers in Poverty
Fayette	12.9%	83,498	10,771
Bourbon	14.0%	609	85
Harrison	12.0%	87	10
Clark	10.6%	1,310	139
Jessamine	10.5%	N/A	N/A
Scott	8.8%	2,648	233
Woodford	7.3%	176	13
Owen	15.5%	N/A	N/A
Grant	11.1%	N/A	N/A
Gallatin	13.4%	N/A	N/A

Census Data for 2000 indicates that there are approximately 11,251 KAWC customers in poverty throughout its service territory. It should be noted that this number is likely higher because of the counties where customer numbers were not available and because Census estimates in 2004 showed the poverty rate in Fayette County had increased to 18.1 percent, which would increase the estimated number of customers in poverty there by more than 4,300.

The percent of KAWC customers who are in poverty, according to these estimates, is at least 12.8 percent of the total available 2000 customer base of 88,328. Again, it's important to note that Census estimates show the poverty rate has increased since 2000.

The Census Bureau uses income and family size as the basis for determining poverty. Poverty and need affordability is an economic equation of income versus basic needs of a family depending on the size of a family. Families in poverty, based on the limits of their income, cannot meet their basic needs.

Focusing on current water rates, thousands of families could not meet their basic water needs this year as evidenced by data provided by the company in response to questions posed by the Council. According to testimony from Witness Michael A. Miller, 12,900 residential accounts were shut off due to non-payment in calendar year 2006. This rate was similar to calendar year 2005, when 12,500 residential accounts were shut off for non-payment. More than 6,100 accounts had been shut off in 2007 through June 5, indicating the number would once again exceed 12,000 in calendar year 2007.

In fact, the number of residential accounts shut off for non-payment increased 189 percent from the year before the last approved water rate increase to the year after that increase. That increase, which took effect in December 2004, nearly doubled the number of customers who could not afford to pay their water bill. The larger number of shut-offs has continued each year since the increase, exceeding 12,000. The company has indicated in testimony that shut-off data is not available prior to November 1, 2003.

Time Period	Annual Residential Shut - Offs	% Increase Since Previous Rate Increase
12/01/2003 to 11/30/2004*	6,430	N/A
12/01/2004 to 11/30/2005	12,149	189%
12/01/2005 to 11/30/2006	12,698	197%

**The previous KAWC rate increase took effect after this date.*

Unfortunately, the Help to Others Program severely lacks resources to keep up with the increase in shut-offs since the last rate increase. The table below illustrates the Company's contribution to this program, its customers' contributions and the number of residential accounts receiving benefits from the program in each of the past four years and in 2007 through June 7.

Year	KAWC Contribution	Customer Contributions	Total Program Contributions	Number of Accounts Served	Number of Accounts Shut Off
2003	\$5,000	\$158	\$5,158	86	711*
2004	\$5,000	\$934.67	\$5,934.67	80	6,263
2005	\$5,500	\$1,188	\$6,688	90	12,500
2006	\$20,000	\$2,173	\$22,173	544	12,900
2007**	\$20,000	\$402	\$20,402	208	6,187***

** Data only available 11/01/2003 through 12/31/2003.*

***Through June 7, 2007.*

****Through June 5, 2007.*

As seen in the table above, the Help to Others Program, at its peak in 2006, was able to provide benefits to 544 of 12,900 accounts shut-off for non-payment. That amounts to only 4.2 percent of shut-off accounts. In 2005, the program assisted less than 1 percent of shut-off accounts.

Unfortunately, data shows that the number of residential shut-offs nearly doubled following the company's last rate increase. That increase, initially implemented at 15 percent, was eventually rolled back to 8.5 percent but the number of shut-offs has remained consistently higher. The proposed increase of 29 percent is more than triple the previous approved rate hike. Should the number of residential shut-offs increase proportionally once again, Central Kentucky could be faced with more than 30,000 annual shut-offs, leaving a frightening percentage of its population without life-sustaining water.

This data effectively illustrates the water affordability aspect of the economic equation for low-income families who cannot meet basic needs. Water services are not only a basic need, but a survival need. This does not include an assessment of other basic needs that households require like food, shelter, medication, and much more. The stress of these demands stretches a family's

resources beyond what it can sustain. Unfortunately with a rate increase, the affordability gap will greatly widen.

6. Please describe how the proposed rate and fee increases will affect low-income people.

Kentucky American Water Company reports in written testimony from Michael A. Miller that the current, average, total monthly cost for residential customers in Fayette County is \$20.02. Based on the requested residential rate increase, the company reports the real dollar increase for the average Fayette County customer will be \$69.72 annually or \$5.81 per month. The proposed increase would therefore change the average residential monthly rate to \$25.83, a cost that represents as much as 3 percent of monthly income for a family at the federal poverty level. The chart below illustrates the cost to low-income customers as a percentage of their monthly income. Of note is that some low-income customers may exceed the average monthly rate, especially larger households. Also, as with the Council’s other programs, many low-income participants’ incomes fall well below the federal poverty guideline, making the monthly KAWC bill an even larger portion of their income.

# in Household	Federal Poverty Level Annual Income	Federal Poverty Level Monthly Income	Average KAWC Bill as % of Monthly Income	Average KAWC Bill as % of Monthly Income (Proposed Increase)
1	\$10,210	\$851	2.4%	3%
2	\$13,690	\$1,141	1.8%	2.3%
3	\$17,170	\$1,431	1.4%	1.8%
4	\$20,650	\$1,721	1.2%	1.5%
5	\$24,130	\$2,011	1.00%	1.3%

If the affordability gap continues to widen as a result of the outcome of this case, families will be forced to make choices about which basic needs they will attempt to satisfy. Families have to do this now at current rates, as seen above by the number of annual shutoffs. With a rate increase, the magnitude of having to negotiate basic needs will increase and the impact will become greater. The stress of stretching resources will continue to act as a barrier to increasing opportunity and reaching self-sufficiency. For those who have made strides in increasing their incomes, they will have to take two or three steps back and some back to where they started in the income versus basic needs equation. The rate increase will create a barrier but it will also create a situation where relief agencies will not be able to come close to providing assistance that will really matter.

In the case of the rate increase, this proposal is too high and cannot be afforded by those with limited or fixed incomes. This is evident in that at current rates and fees, the affordability gap already exists. I am encouraging Kentucky American Water Company and the Commission to

reconsider the increase set forth in this filing or, alternatively, to proactively seek ways to offset the burden for its low-income customers.

7. What do you propose the solution in this case?

Regardless of the size of the increase in rates, low-income people already experience an affordability gap. I am encouraging Kentucky American Water Company and the commission to create a safety net for their low-income customers by dramatically expanding the Help To Others Program. I propose an expansion that includes \$25,000 annually from shareholder funds and \$25,000 from ratepayers. While this won't be enough funding to prevent all shutoffs even if the commission does not approve this rate increase, it would substantially increase the number of households served.

8. Please describe how such assistance initiatives help low-income people and the utility company.

Utility assistance programs provide a safety net for the low-income customer and help close the affordability gap. The safety net helps keep vital utility service running and makes it more affordable to the low-income customer. Utility assistance programs help companies experience fewer bad debts to write off and save on the costs associated with disconnects and reconnects.

9. Has Community Action Council been involved in utility company sponsored assistance programs either currently or in the past? Please describe.

As described earlier, the Council administers the Help to Others water assistance program through contributions from Kentucky American Water shareholder funds and customer donations. This program has operated since 2006 when it replaced a similar program, Water for Life, which had operated since 2000.

Help to Others makes funds available throughout Kentucky American Water's service territory for households with income up to 150 percent of federal poverty guidelines. Assistance is provided for water service, activation fees and reactivation fees and participants may receive up to \$100 in benefits each fiscal year. The program is available to those in danger of having their water disconnected. In support of the program, intake staff provides information to participants about saving water and detecting leaks.

The Council also operates the WinterCare Energy Fund, a statewide privately supported energy assistance fund. WinterCare is a partnership between utilities and community action agencies that helps low-income, disabled and elderly persons with their utility costs. Donations to this fund assist those who are ineligible for federal assistance, but still fall below the poverty line. The Council provides staff and administrative support for the fund, which is available in all Kentucky counties except Jefferson.

The Columbia Gas of Kentucky Customer Assistance Program was initiated by Columbia Gas of Kentucky in 1995 in collaboration with the Attorney General, Lexington-Fayette Urban County Government, Kentucky Legal Services, and Community Action Council. The purpose was to offer low-income gas customers an affordable gas utility bill payment based on their monthly income. The Council worked closely with Columbia Gas to design and implement the program with the best interests of the persons who would be served in mind. The Council has operated the program at capacity since its inception. In 2003, as part of a Columbia Gas of Kentucky rate case, the number of beneficiaries was increased and the program expanded to the entire Columbia Gas service territory. The Council played a significant part in the re-design of the model that was developed, and in implementing the program for Columbia Gas. This program is now known as the Columbia Gas Energy Assistance Program and serves 850 households each year.

Also, the Council administers a similar energy assistance program in collaboration with Delta Gas. This program serves 255 Delta customers in 17 counties each year through bill subsidies.

Finally, the Council also implemented and administers the Kentucky Utilities Home Energy Assistance (HEA) Program, established collaboratively between the Kentucky Public Service Commission, Kentucky Utilities, the Attorney General, Kentucky Association for Community Action, and the Council. This program serves 1,300 KU customers whose primary heat source is KU electric by providing regular monthly subsidies throughout the winter and summer peak usage months.

10. Is subsidy the only benefit of a utility assistance program?

No, but when a program is established in strong collaboration with a comprehensive service organization the benefits are expanded. Once enrolled in the program, customers have access to a wide-variety of both short and long-term service programs that help them strive toward self-sufficiency. Staff of such an organization is able to help participants access other assistance programs as well as other community resources to address the multiple obstacles and barriers that most low income households face. This comprehensive approach is intended to provide greater stability and self-sufficiency to these households, promoting more consistency in utility payments.

11. Is it Kentucky American Water Company's responsibility to contribute to impacting the lives of low-income people for the positive?

As a public utility, Kentucky American Water Company has an obligation to its low-income customers. They are the only choice for water service. Low-income people cannot shop around for a better deal.

12. How would a Kentucky American Water Company assistance program work?

The current Help to Others Program is available to households with incomes up to 150% of federal poverty guidelines and provides assistance for water service, activation fees and

reactivation fees. Applicants must provide proof of income for all adults in the home and the Kentucky American Water Company bill must be in the applicant's or a household member's name.

Participants currently can receive up to \$100 per fiscal year to pay water portion of the bill if they are in danger of having their water disconnected. Staff provides information on saving water and detecting leaks. In some cases, the \$100 annual limit is inadequate because low-income customers in aging homes or rental units have had an undetected water leak.

Under Help to Others, Kentucky American Water customers also may contribute to the program through their monthly bills. Also, the program does not pay sewage and landfill expenses, though some communities (Fayette especially) have other assistance available for that portion of their bill.

13. Are resources for water service assistance sufficient to meet the needs of the population in the Kentucky American Water Company service territory? Please discuss.

No, resources are not sufficient to meet the needs of the population. Unlike energy assistance, for which federal LIHEAP funding, local public and private funding, and utility-supported programs are available, there are few options available to households needing assistance with their water bill. The Council has access to only a few thousand dollars in private donor funds that could be used each year for water assistance and these funds must serve the needs of all of the organizations 19,338 annual participants. No significant resource is available beyond the Help To Others Program described earlier in this testimony.

Each year, Community Action Council is forced to turn away hundreds of families seeking assistance for lack of available funds.

14. In summary, please state your position regarding Kentucky American Water Company's proposed rate increase and your recommendations regarding the same.

The rate increase is too high and will greatly impact the ability of low-income customers to pay for essential service. Without additional means of support like low-income assistance or subsidies, the affordability gap will be in excess and continue to grow.

15. Does this end your direct testimony?

Yes



JACK E. BURCH

